

FISCAL NOTE

Bill #: HB0063

Title: School finance revision

Primary Sponsor: Villa, D

Status: Conference Committee

Sponsor signature	Date	David Ewer, Budget Director	Date
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Fiscal Summary

	<u>FY 2006 Difference</u>	<u>FY 2007 Difference</u>
Expenditures:		
General Fund	\$34,996,511	\$43,498,713
Revenue:		
General Fund	\$0	\$0
Net Impact on General Fund Balance:	(\$34,996,511)	(\$43,498,713)

<input checked="" type="checkbox"/> Significant Local Gov. Impact	<input checked="" type="checkbox"/> Technical Concerns
<input type="checkbox"/> Included in the Executive Budget	<input type="checkbox"/> Significant Long-Term Impacts
<input type="checkbox"/> Dedicated Revenue Form Attached	<input checked="" type="checkbox"/> Needs to be included in HB 2

Fiscal Analysis

ASSUMPTIONS:

Office of Public Instruction

1. The average number belonging (ANB) in K-12 public schools under present law and HB 63 (with its allowance for 3-year ANB averaging) would be as follows:

<u>FY 2006</u>	<u>Present Law</u>	<u>HB 63</u>
K-6 ANB	71,920	73,555
7-8 ANB	24,540	25,202
9-12 ANB	49,283	49,999
Total ANB	145,743	148,756
<u>FY 2007</u>		
K-6 ANB	71,351	72,137
7-8 ANB	23,850	24,723
9-12 ANB	48,745	49,294
Total ANB	143,946	146,154

2. HB 63 increases both the elementary per-ANB entitlement and the high school per-ANB entitlement for FY 2006 and FY 2007. The basic and per-ANB entitlements will be set as follows:

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	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
Basic entitlement Elementary	\$19,859	\$20,275	\$20,718
Basic entitlement High School	\$220,646	\$225,273	\$230,199
Per-ANB entitlement Elementary	\$4,031	\$4,366	\$4,456
Per-ANB entitlement High School	\$5,371	\$5,584	\$5,704
Direct State Aid Percentage	44.7%	44.7%	44.7%
3. HB 63 amends 20-9-311 to allow K-12 public school districts to use either the current year ANB or the 3-Year Average ANB whichever generates the greatest maximum general fund budget.			
4. The statewide taxable valuations will increase by 2.5 percent in FY 2006 and 2.8 percent in FY 2007.			
5. Under current statute direct state aid will be \$322.68 million in FY 2006 and \$318.80 million in FY 2007. Guaranteed tax base aid to K-12 public schools will be \$101.83 million in FY 2006 and \$100.30 million in FY 2007. County retirement costs will be \$22.52 million in FY 2006 and \$23.23 million in FY 2007.			
6. An U.S. district court injunction requires that the impact aid portion of the cost of the retirement fund numbers be funded by the state with or without passage of HB63. The costs associated with impact aid should be considered present law and not attributable to HB63 and are included in the costs of assumption 5, current statute costs.			
7. The state special education appropriation is assumed to be \$38.51 million in FY 2006 and \$39.35 million in FY 2007, as appropriated in HB 2.			
8. Present law (MCA 20-9-326) requires the Governor to include inflation adjustments for the entitlements in the recommendations presented to the legislature. These present law entitlements result in the following expenditures: direct state aid will be \$329.65 million in FY 2006 and \$333.00 million in FY 2007. Guaranteed tax base aid to K-12 public schools will be \$104.40 million in FY 2006 and \$105.54 million in FY 2007. County retirement costs will be \$22.54 million in FY 2006 and \$23.31 million in FY 2007.			
9. Under HB 63 direct state aid will be \$347.56 million in FY 2006 and \$349.38 million in FY 2007. Guaranteed tax base aid paid to K-12 public schools will be \$111.475 million in FY 2006 and \$111.874 million in FY 2007. Guaranteed tax base aid costs for county retirement will be \$22.99 million in FY 2006 and by \$23.87 million in FY 2007.			
10. Interdistrict school agreements would have no fiscal impact until FY 2007. Districts that make use of the interdistrict agreement provision must enter into agreements and transfer the funds by February 1. This fiscal note was prepared assuming that fund balance reappropriated will be reduced by \$1.57 million and increases Guaranteed Tax Base Aid by \$0.7 million. Setting the date for transfer at February 1 result reduces the impact by one-third compared to allowing districts to transfer funds at any time.			

FISCAL IMPACT:

	<u>FY 2006</u> <u>Difference</u>	<u>FY 2007</u> <u>Difference</u>
<u>Expenditures:</u>		
Local Assistance – present law (MCA 20-9-326)	\$9,576,170	\$19,517,419
Local Assistance – new proposal	25,420,341	23,281,294
Unified and joint board interdistrict agreements	0	700,000
TOTAL	\$ 34,996,511	\$ 43,498,713

Funding of Expenditures:

General Fund (01)	\$ 34,996,511	\$ 43,498,713
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Impact on Fund Balance:

General Fund (01)	(\$ 34,996,511)	(\$ 43,498,713)
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EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

1. K-12 public school districts can respond to the general fund budgets provisions of HB 63 by increasing general fund spending or providing property tax relief.
 - Districts that are currently spending at the BASE budget level will be required to increase spending and local property taxes to achieve the new BASE level.
 - Increases in property taxes to support the over-BASE portion of K-12 public school district budgets will require voter approval.
 - HB 63 allows districts that are currently above Maximum to continue to levy the same level of over-BASE taxes without a vote. Under current law all over-Maximum taxes require a vote every year.
2. All school districts must adopt a budget that is at least equal to the BASE budget. The increases in the basic and per-ANB entitlements coupled with the 3-year averaging of ANB are projected to expand BASE budgets by \$34.44 million in FY 2006 and by \$32.04 million in FY2007. Local property tax mills are required to increase by \$7.58 million in FY 2006 and by \$8.07 million in FY 2007 to fund the expanded BASE budgets and the related increases for county retirement. All other property tax increases that might result from HB 63 are subject to the decisions of local school trustees.
3. The following chart shows the mandatory and optional local property tax impacts.

	<u>FY 2006</u>	<u>FY 2007</u>	<u>Biennium</u>
Mandatory Property Tax Increase			
Basic and per-ANB entitlements increase	\$ 6.27	\$ 4.44	\$ 10.71
County retirement increase	1.31	3.63	4.94
Optional Tax Increase Determined by Local School Trustees			
Allow elementary/high school sharing of cash reappropriated	0	.70	.70
TOTAL	\$ 7.58	\$ 8.77	\$ 16.35